IN THE

UNITED STATES CIRCUIT COURT OF APPEALS

FOR THE SEVENTH CIRCUIT.

OCTOBER TERM, A. D. 1914.

U. S. EXPANSION BOLT COMPANY, *Appellant,* vs. H. G. KRONCKE HARDWARE COMPANY, DIAMOND EXPANSION BOLT COMPANY, HENRY B. NEWHALL, *Appellees.*	No. 2320.
H. G. KRONCKE HARDWARE COMPANY, DIAMOND EXPANSION BOLT COMPANY and HENRY B. NEWHALL, *Appellants,* vs. U. S. EXPANSION BOLT COMPANY, *Appellee.*	Appeals from the District Court of the United States for the Western District of Wisconsin. No. 2331.

BRIEF AND ARGUMENT ON BEHALF OF U. S. EXPANSION BOLT CO.

STATEMENT OF CASE.

MAY IT PLEASE THE COURT:

U. S. Expansion Bolt Co., a New York corporation, filed suit in the United States District Court for the Western District of Wisconsin, against the H. G. Koncke Hardware Co., a Wisconsin corporation, charging infringement of the McCreery Patent, No. 623,809, in the sale of one-part ex-

pansion shields of lead, made by the Diamond Expansion Bolt Co.

The Diamond Expansion Bolt Co., a New York corporation, became a party defendant by leave of court, and filed answer jointly with the Kroncke Company. Subsequently, at the trial of the case, Mr. H. B. Newhall, President of the Diamond Company, also intervened to become a defendant. Leave was granted to the two defendants first named to set up in their answer three counterclaims against the U. S. Expansion Bolt Co., based upon alleged infringement of (1) the Pleister Patent, No. 973,559, (2) the Cook Patent, No. 685,820, and (3) alleged unfair competition. To the filing of these counterclaims the U. S. Company vigorously objected. The answer of the U. S. Company to these counterclaims reiterated its objections to the right of the Diamond and Kroncke Companies to assert these counterclaims for jurisdictional as well as other reasons. The U. S. Company in its answer to these counterclaims also pleaded a certain cross counterclaim based on unfair competition by the Diamond Company.

In the decision of Judge Sanborn on final hearing, the charges of infringement under all three patents in suit were dismissed, although each of the patents was held to be valid. The charge of unfair competition against the U. S. Company was sustained, and an injunction entered, which was later suspended on the filing of a supersedeas bond. The cross counterclaim against the Diamond Company was dismissed as not supported by the evidence.

Each side has taken an appeal to this court on such points as were decided adversely to it, so that all the issues of this controversy may be discussed comprehensively in this brief.

ERRORS RELIED UPON BY THE U. S. COMPANY.

The appeal of the U. S. Company from Judge Sanborn's decision is based on the following errors:

1. In holding that the one part shields of the Diamond Company do not infringe claim 3 of the McCreery patent set forth in the bill of complaint, or in any way violate the U. S. Company's rights thereunder.

2. In holding that the Diamond Expansion Bolt Co. and Henry B. Newhall, two of the defendants by intervention, were entitled to present counterclaims against the U. S. Company based on alleged infringements of two patents and unfair competition, and that the U. S. District Court for the Western District of Wisconsin could assume jurisdiction over the U. S. Company in respect to these matters, or any of them.

3. In holding that the Diamond Company's Cook and Pleister patents are good and valid in law, and in not holding that the said patents and each of them, are invalid.

4. In not holding that the principles of invention embodied in the McCreery Expansion Bolts, as publicly used in Cleveland since 1903, apply to two-part shields, such as are defined by the Diamond Company's Pleister patent in suit.

5. In holding that the court at Madison, Wis., could exercise jurisdiction in respect to charges of unfair competition between the U. S. Company and the Diamond Company, the principal defendant, both citizens of the State of New York, after the U. S. Company had been found not to infringe upon the patent rights of the Diamond Company.

6. In holding that the U. S. Company has infringed any rights of the Diamond Company, based on alleged unfair competition, in the sale of the U. S. E. one part shields (lead), and U. S. E. two part shields (iron).

7. In holding that the Diamond Company is entitled to equitable relief of any kind as prayed for in the counterclaim based on unfair competition.

8. In holding that the rights of the U. S. Company, secured to it by the Zifferer Patents, Nos. 1,136,638 and 1,138,345, to manufacture its present form of one part shields and two part shields, is abridged by the alleged trade rights of the Diamond Company acquired by user.

9. In holding that any of the acts and doings of the U. S. Company in connection with the sale of its one part shields (lead) and two part shields (iron) are unfair or improper, or tend in any way to constitute unlawful competition.

10. In holding that the U. S. Company's cross counterclaim against the Diamond Company, based upon unfair competition, is not sustained by the evidence.

BRIEF OF ARGUMENT.

THE FILING OF COUNTERCLAIMS BY THE DIAMOND COMPANY WAS IMPROPER IN THIS CASE.

INTERVENTION BY THE DIAMOND COMPANY WAS A PRETEXT FOR INJECTING COUNTERCLAIMS.

At the outset we wish to discuss certain questions of procedure and propriety as well as jurisdiction, arising out of the filing by the Diamond Company of its three counterclaims.

Italics appearing throughout this brief are ours, except where specified otherwise.

The Diamond Company's motion to intervene and set up counterclaims was opposed from the beginning. At no time since, has the U. S. Company waived its objections to such an improper procedure. The original defendant, the Kroncke Company, is a hardware concern at Madison, Wisconsin, and was sued by the U. S. Company for selling expansion bolts manufactured by the Diamond Company, a New York corporation. The suit, as originally contemplated, involved but one straight, clean-cut issue of patent infringement. Jurisdiction was based upon the statutory provision that:

> "The Circuit Courts of the United States shall have jurisdiction, in law or in equity, in the district of which the defendant is an inhabitant, or in any district in which the defendant, whether a person, partnership, or corporation, shall have committed acts of infringement and have a regular and established place of business." (U. S. Statutes, 1897, Sec. 629.)

In its petition to intervene, the Diamond Company, under the guise of an allegation in the answer, set up that it is the owner of the Cook Patent, No. 685,820; that it is the exclusive licensee of the Pleister Patent, No. 973,559; and that these patents are being infringed by the U. S. Company, although the Kroncke Company has no interest in these patents or the

enforcement of rights thereunder. In the same indirect way the Diamond Company alleged certain trade-rights which it claims to have acquired in the form of its expansion bolts, and that these trade-rights are being damaged by the U. S. Company through acts of unfair competition, although the Kroncke Company is not involved in the enforcement of these rights. The answer prayed for positive relief against the U. S. Company by way of set-off or counterclaim under Rule 30. The petition to intervene was obviously presented for the purpose of imposing in the U. S. District Court for the Western District of Wisconsin jurisdiction of a claim of unfair competition between two corporate citizens of the *State of New York*, and claims of patent infringement as well, in a district where the U. S. Company maintains no established place of business.

The institution by the Diamond Company of a *direct* proceeding would be totally unavailing to impose jurisdiction in the U. S. District Court at Madison, either in respect to charges of patent infringement or unfair competition. And it follows necessarily that the Diamond Company is equally unable in an *indirect* proceeding to impose jurisdiction in this court over these issues, against the protest of its adversary, through intervention or any other means.

RULE AS TO INTERVENTION.

Equity rule, No. 37, after stating the circumstances in which parties may intervene proceeds as follows:

> "Any one claiming an interest in the litigation may at any time be permitted to assert his right by intervention, but the intervention shall be in *subordination to*, and in recognition of, *the propriety of the main proceeding.*"

Obviously this rule confers jurisdiction on the court to determine whether the petitioner seeks to intervene for the purpose of asserting some right respecting the matter in

issue in the main proceeding, or for some other ulterior purpose. There could be no objection that the Diamond Company, as manufacturer of the goods complained of, should intervene and submit itself to the jurisdiction of the Court at Madison, Wisconsin, for the sole purpose of *defending* against the charge of infringement made by the U. S. Company, although even that privilege has been denied on certain occasions.

The petition to intervene was filed, not to further a determination of the issues in the main proceeding, and not "in subordination to, and in recognition of, the propriety" of such issues, but rather for the purpose of injecting into this case three separate and distinct causes of action in which the original defendant, the Kroncke Company, has *no interest whatsoever*. And the situation which has developed as a result of the injection of these counterclaims is remarkable indeed. The bill of complaint has been dismissed, and the case has lost all semblance of its original aspects, having proceeded to final determination upon a set of issues which are totally unrelated to those set forth in the bill of complaint filed by the U. S. Company. In consequence of this, Judge Sanborn has been obliged to exercise jurisdiction in respect to three causes of action, none of which are predicated upon anything within the province of his court under the statute. Intolerable confusion and conflict of jurisdiction may well arise from the situation thus presented.

THE SET-OFFS OR COUNTERCLAIMS

The second paragraph of Equity Rule 30 reads as follows:

> "The answer must state in short and simple form any counterclaim arising out of the transaction which is the subject matter of the suit, and may, without cross bill, set out any set-off or counterclaim against the plaintiff which might be the subject of an independent suit in equity against him, and such set-off or counterclaim, so set up, shall have the same effect as a cross suit, so as to

enable the court to pronounce a final judgment in the same suit both on the original and cross claims."

Even if the original defendant, the Kroncke Company, were the owner of the patents under which the Diamond Company has prayed for relief, and the owner of the alleged trade rights which form the basis of the unfair competition counterclaim, and even if no question of intervention were involved, nevertheless, under the construction of Rule 30 which has been universally adopted by the courts, no set-off or counterclaim could properly be urged in the answer in the present case.

Rule 30 has been differently interpreted by the courts. In certain of the eastern districts, it appears that a counterclaim, under a patent *owned by the defendant*, may be set up and tried as an issue in the main proceeding. Judge Geiger, however, in the Wisconsin District, has taken a different view, and in the case of *Adamson v. Shaler*, 208 Fed., 566, has held that such a proceeding was improper in any circumstances. The syllabus in this case reads as follows:

"The provision of new equity rule 30 that a defendant may set out in his answer 'any set-off or counterclaim against the plaintiff which might be the subject-matter of an independent suit in equity against him' does not authorise the defendant, in an infringement suit, to set up as a counterclaim a cause of action for infringement of another patent, wholly unrelated to the subject-matter of the bill."

Among other things Judge Geiger says:

"One of these results would be—if the broad construction be not again limited to specific cases, such as patent cases where diversity of citizenship is immaterial—to indirectly *enlarge the statutory jurisdiction.*"

But Judge Geiger, irrespective of jurisdictional considerations, holds that the rule was not intended to permit the combining of unrelated causes of action under patents owned respectively by the complainant and defendant.

This is also the view taken by Judge Dodge in the Massa-

chusetts District in the case of *Terry Steam Turbine Co*, v. *B. F. Sturtevant Co.*, 204 Fed., 103.

But even those courts which have recognized the propriety, in patent cases, of permitting the defendant to set up his patent in a counterclaim, have clearly recognized the jurisdictional limitations which must, in all cases, condition such a practice. This is clearly indicated in the case of *Marconi Wireless Telegraph Co.* v. *National Electric Signalling Co.*, 206 Fed., 295. Judge Chatfield, in this case which expresses the most liberal interpretation of Rule 30 states:

> "It is evident that the Supreme Court cannot by rule confer jurisdiction, and that they have not intended so to do. It is evident that when they say 'causes of action in equity,' they mean only such causes of action as the court could entertain. We shall not attempt to classify or define the various causes of action of which the United States courts are given jurisdiction by statute, but for the purposes of this motion, and for the interpretation of the section, we shall confine consideration to causes of action which could be heard by the same court as the one acting in a suit brought by a plaintiff for infringement of patent, occurring within this district. Surely a cause of action in equity between the plaintiff and defendant, if both reside in this district, could not be brought in the United States court, unless it arises under the patent laws or some other statute of the United States giving this court jurisdiction. Manifestly, therefore, only such causes of action could be cognizable in equity under rule 26 in this court, and only such causes of action could be interposed by a defendant as counterclaims and set-offs to an action on a patent.
>
> It has been uniformly held in this circuit and in many other courts of the United States, that an action brought under the patent laws cannot be made to carry with it violations of other rights, of which the court does not have jurisdiction through diversity of citizenship, or under some other statute of the United States. *National Casket Co.* v. *New York & Brooklyn Casket Co.* (C. C.), 185 Fed., 533. The new equity rules do not enlarge this limit. Rule 26, except as modified by the necessities of convenience, allows the joinder of as many causes of action as

can be properly disposed of and covered by 'a final judgment.' But these are only such actions as could be brought separately, and rule 26 does not compel the union of dissimilar actions, nor the inclusion in one decree of a number of various kinds of equitable relief, with various sets of accountings.

By analogy, rule 30 seems to be intended to prevent useless litigation and to serve the convenience of parties by providing for the inclusion of as many causes of action (which the court of equity can entertain within its statutory jurisdiction) as could properly be disposed of in one litigation, by cross suits, and which could be included in the necessary injunction orders and by a complete accounting in one decree."

Although we think Judge Geiger's reasoning in the Adamson-Shaler case is conducive to the better practice, and although his decision establishes the practice in the Wisconsin District, nevertheless, even if this court is disposed to adopt the interpretation of the rule laid down by Judge Chatfield, none of the counterclaims can be set up, for the reason that only such causes of action can be indirectly set up by counterclaim as might be the subject of a direct proceeding in the court *having jurisdiction* of the subject-matter.

The joint answer of the Kroncke and Diamond Companies alleges the pendency in the U. S. District Court of the Southern District of New York of a suit under the Cook Patent, entitled *Diamond Expansion Bolt Co.* v. *U. S. Expansion Bolt Co.* The pendency of this suit indicates a recognition on the part of the Diamond Company of the propriety of suing the U. S. Company in the New York District, and since the answer contains no averment that the U. S. Company maintains an established place of business in Wisconsin, Judge Sanborn was obviously without jurisdiction in the premises.

The answer of the Diamond Company further contains an allegation concerning the pendency of a suit in the New York Supreme Court entitled *Diamond Expansion Bolt Co.* v. *U. S. Expansion Bolt Co.*, charging unfair competition in trade,

Such a controversy is one involving citizens of the same State. The Federal Court can have no jurisdiction of this issue for any purpose whatever, and it is manifestly improper for such an issue to be injected in any way, shape or form into a case commenced by the U. S. Company against a mere dealer.

It is true that the answer filed by the Diamond Company contains a joker in the form of an averment that the Kroncke Company has been damaged to the extent of $2,000.00 by alleged unfair competition of the U. S. Company. But this averment in the light of all the facts in the case, is a mere pretense whose evident purpose is to make a showing of interest in the Kroncke Company, and a right to maintain a counterclaim of this kind independent of any alleged rights asserted on behalf of the Diamond Company. The farcical character of the Kroncke Company's "counterclaim" is manifest when we consider that its answer contains no averment whatever concerning the acquisition of any trade rights which would constitute a basis for the maintenance of an unfair competition suit. There is no sufficient averment moreover, that the Diamond Company's goods have become widely known in the State of Wisconsin through the efforts of the Kroncke Company; and no averment whatever to the effect that the Diamond Company's goods have acquired a trade reputation through the efforts of the Kroncke Company. On the contrary, the answer is eloquent in its statements concerning what has been done by the Diamond Company in building up a business in the District of Wisconsin, but is significantly silent concerning any activity in the Kroncke Company in enlarging the business. Nor has one scintilla of evidence been adduced showing that the Kroncke Company has any interest in the unfair competition issues, and not a single witness connected with the business of that company has been produced by either party.

Irrespective, therefore, of all the questions concerning the right of a *dealer* to maintain an unfair competition proceed-

ing respecting trade-rights acquired primarily by a *manufacturer*, which we very much doubt in any case, nevertheless, in the present answer there is an entire absence of allegations setting forth any rights exclusively in the Kroncke Company, which would constitute a proper basis for an unfair competition proceeding. The presentation of counterclaims should therefore have been denied in toto, as lacking in averments which would constitute a basis for granting several relief in behalf of the Kroncke Company.

Even if the court were disposed to adopt the liberal rather than the strict interpretation of Rule 30, respecting counterclaims, and were to take issue with Judge Geiger respecting the interpretation of that rule, and even if the court were to recognize the general right of a defendant in a patent case to answer to a charge of infringement with a countercharge of unfair competition, nevertheless, it would be manifestly improper, under the very meager joint averments of the answer, to permit the Kroncke Company to raise this issue independently in the present case. The averments concerning unfair competition matters are directed almost entirely to the question of damages to the Kroncke Company, but no averments are found respecting any right to *independently* maintain this or any other cause of action. For this reason, we respectfully submit and insist that the counterclaims should have been disallowed, first, because they relate to matters and things in which the Kroncke Company has no interest, and second, because the Kroncke Company failed to set up in the answer facts which would entitle it, independently of the Diamond Company, to maintain any such counterclaims or set-offs.

UNITED STATES CIRCUIT COURT OF APPEALS

FOR THE SEVENTH CIRCUIT.

I, FREDERICK G. CAMPBELL, Clerk of the United States Circuit Court of Appeals for the Seventh Circuit, do hereby certify that the foregoing photostated plates, numbered from 35 to 57, inclusive, contain a true copy of the first twelve pages of Brief and Argument on behalf of the U. S. Expansion Bolt Co. filed on the 20th day of December, 1915, in the cases of

U. S. Expansion Bolt Company,
Appellant,
vs.
H. G. Kroncke Hardware Company, Diamond Expansion Bolt Company and Henry B. Newhall,
Appellee.

H. G. Kroncke Hardware Company, Diamond Expansion Bolt Company and Henry B. Newhall,
Appellants;
vs.
U. S. Expansion Bolt Company,
Appellee.

Nos. 2320 and 2331, October Term, 1914, as the same remains upon the files and records of the United States Circuit Court of Appeals for the Seventh Circuit.

IN TESTIMONY WHEREOF I hereunto subscribe my name and affix the seal of said United States Circuit Court of Appeals for the Seventh Circuit, at the City of Chicago, this 22nd day of March, A. D. 1935.

Seal Circuit Court of Appeals Seventh Circuit

FREDERICK G. CAMPBELL,
Clerk of the United States Circuit Court of Appeals for the Seventh Circuit.